

Minutes of 18 November 2013 Stakeholder Workgroup meeting to discuss key issues from 21 October 2013 DPCR4 Losses Incentive Mechanism close out consultation.

1. Introductions

Attendance as per Appendix 1

2. Ofgem presentation and discussion of key consultation issues

Tim Aldridge presented slides¹ setting out some background and the questions asked in the consultation covering the following topics. Each section allowed for a period of discussion on key points raised.

2.1. Normal period (slides 3, 4)

- WPD set out concerns with the stipulated two-year normal period, particularly relating to the East Midlands area (EMID). The EMID negative reconciliations increased by a factor of five early in DPCR4. This seems to support that 2007/08 data was not 'normal'. WPD suggested that possible options would be to use only one year as normal period; take an average of the performance over 2005/06 (low) and 2006/07 (higher); or reset 5xE to zero. Some attendees did not consider that a reset to zero would be an acceptable approach.
- Npower confirmed that it had started the data cleansing exercise in 2007 in some areas. A number of attendees agreed it would be necessary to look at a different approach if there was clearly a significant step up.
- ENWL raised the point of whether abnormality should be based on the absolute level of losses, or if it should be the level of reconciliations in that year. A number of attendees agreed that assessing the normal period could be based on the amounts of reconciliations in each year with losses levels a backstop check on 'normality'.
- Some stakeholders did not seem to support the principle of using a single year as the normal period for EMID as an exception. UKPN suggested a 24-month period within the first three years of DPCR4 (not necessarily discrete financial years) might be a viable alternative for EMID. WPD committed to investigating alternative normal periods on this basis.
- Some stakeholders were not comfortable with having a different normal period for one DNO as this could lead to cherry-picking. There was a view that other DNOs would not be likely to seek reconsideration if one DNO were to be treated exceptionally based on available data supporting a different normal period, and that further iterations across the board should be avoided. Some stakeholders considered that the credibility criteria should be unaffected by a different normal period.

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https://www.ofgem.gov.uk/sites/default/files/docs/2013/11/20131118_ofgem_losses_close_out_workshop_to_circulate_0.pdf

2.2. Other evidence for abnormality (slides 5 - 10)

For 2009-10

- Stakeholders agreed that the test for abnormality should be reciprocal and provide protection to both DNOs and customers.
- No further supporting data has been provided yet. Some suppliers confirmed they're working on this but that data will still take some collating, and that the exercise could be time consuming.
- There was appetite among the group for a common data request to be made of all suppliers and for the data to be published in a collated form to allow all stakeholders to interrogate it. If there is additional data available which might impact on the decision on post 2009-10 abnormality it's important that it be made available as a matter of urgency.

For post 2009-10

- There was general acceptance that evidence for post 2009-10 abnormality should be considered, highlighting the need for 'strong evidence' as stated in the consultation. Data relating to post 2009-10 should be included in the additional data request.

2.3. Credibility cap (Slides 11, 12)

- A number of stakeholders considered that the credibility cap of 5 per cent less than target losses should be applied based on fully-reconciled data. There were some concerns with also applying a threshold of 5 percent less than 'normal losses' since the normal period in itself may be partially affected by the abnormality. There was some concern that using the lower of the two thresholds is overly generous to DNOs.
- Some stakeholders were concerned the reciprocal cap does not operate in the same way as the cap, as it is a trigger for restatement rather than an absolute limit of exposure.
- Some stakeholders considered that with the available data there is never going to be a 'right' answer, but that a fair outcome could be achieved based on a 5 per cent credibility threshold above and below the target losses.

2.4. Comments on assessments (slide 13)

- WPD presented a table setting out the potential cost or benefit per customer, based on the figures in the consultation. It highlighted that part of the differences may be driven by the different methodologies in place.
- Stakeholders discussed whether it was right to strip data management units out before testing for abnormality, sighting a potential difference in the approaches of UKPN and WPD, for example.

2.5. Process for recovery (period, indexation, time value of money) (Slide 14)

- ENWL suggested that it might be simpler to calculate the total effect of the revised data outside of the revenue returns, rather than resubmitting the 2009-10 and all subsequent returns.
- Stakeholders discussed the merits of applying I_t indexation rather than WACC, since this is not considered an investment decision. Some suggested that the approach should be to consider the approach intended at the time the incentive was conceived.

3. Next steps

Stakeholders were encouraged to reflect on the discussions of the workshop in putting together their consultation responses.

Dora Guzeleva set out the next steps based on the workshop discussions. This would include a further approach to suppliers for any additional data, and allowing reasonable time for stakeholders to react to any additional data. Stakeholders were encouraged to submit their responses to the existing questions by 2 December, with supplementary responses on the additional data shortly after. Ofgem would still aim to publish the PPL figures in early 2014.

Ofgem will publish the slides and these notes alongside the consultation.

Appendix 1: Attendance List

Organisation	Attendee
British Gas	George Moran, Andy Manning
EDF	Julia Haughey
ELEXON	Jon Spence
ENWL	Mike Attree
E.ON	Glenn Sheern
Haven Power	Karl Maryon
Npower	Helen Inwood
SSE	Max Lalli
SP Networks	Garth Blundell
Northern Powrgrid	John France, Keith Noble-Nesbitt, Peter Collinson
UKPN	Jonathan Purdy, Keith Hutton
WPD	Dave Wornell, Simon Yeo, Nigel Turvey
ESP Consulting	Jonathan Ashcroft
Ofgem	Dora Guzeleva, Tim Aldridge, Lesley Ferrando, Sean Jenkins-Murray